



USAID
FROM THE AMERICAN PEOPLE

AFGHANISTAN

FLAG INTERNATIONAL, LLC FINAL REPORT

RAMP/ FI
JUNE 2006



FLAG International, LLC
315 Severn Avenue
Annapolis, MD 21403
USA

Final Program Report of Activities

for the

Rebuilding Agricultural Markets in Afghanistan Program (RAMP)
Subcontract No. 306-C-00-03-00502-FI

BUSINESS DEVELOPMENT SERVICES

June 1, 2005 – June 30, 2006

Submitted to:

Chemonics International / RAMP

Table of Contents

Executive Summary.....	3
Purpose and Background of FI BDS.....	4
Project Objectives and Results.....	5
Project Accomplishments and Success Stories.....	7
Coordination and Key Players.....	17
Challenges Encountered.....	18
Lessons Learned.....	19
Challenges Ahead.....	20
Conclusion.....	21

Executive Summary

RAMP was a three-year program that aimed to restore food security and raise rural incomes in Afghanistan by reviving the agricultural sector. The program impacted the lives of all Afghans by improving key areas such as food safety, job creation, income generation, and competitiveness. Particular emphasis was given to enterprises that expand women's economic participation. RAMP operated in close coordination with the Ministry of Agriculture and Animal Husbandry (MAAH), funded by the U.S. Agency for International Development (USAID). RAMP was the largest donor initiative in Afghanistan's agricultural sector. RAMP served as a central clearinghouse for dozens of individual projects designed to speed up results and jump-start the agricultural economy in Afghanistan. RAMP took a "value chain" market approach that focused on three key economic constraints:

- Improved technology and market development - Increased crop and livestock productivity and output through improved inputs, and more effective linkages among producers, processors, and markets.
- Rural infrastructure - Rehabilitation and construction of irrigation systems, roads, and local market facilities.
- Financial services - Expanded lending to producers, processors, and agribusinesses.

Based on experience in other post-conflict economies, small and medium enterprises (SMEs) have shown to play an important role in the rebuilding of economies after periods of instability. SMEs have the potential to raise rural incomes and create employment in the agricultural sector, both of which are goals of RAMP and, also are essential to long-term stability of the country. In order for the SMEs to build and grow, they need access to financing. Access to financing reduces a major constraint on growth for promising agricultural enterprises and contributes, in a targeted way, to the formation of added value for specific products.

The purpose of the subcontract was to provide Business Development Services (BDS) to Afghan agribusinesses with the goal of supporting their access to credit in support of USAID's Rebuilding Agricultural Markets Program (RAMP) in Afghanistan. FI targeted small and medium sized agribusinesses along the value chain and offered BDS services to Afghan agribusiness to access loans and post-finance assistance in order to grow their businesses and make them sustainable after the completion of the program.

The purpose of this report is to communicate the lessons learned based on the entire thirteen-month life cycle of the RAMP BDS project implemented by FI from June 2005 through June 2006. To help highlight the lessons learned and other issues, this document also provides a general history of agribusiness SMEs and relevant administrative information concerning the project.

Purpose of FI BDS

The purpose of the Subcontract was to provide FI with start-up and operational costs for providing business development services to qualified agribusinesses primarily identified by the RAMP team and RAMP Implementing Partners. During the 13-month project, FI was required to deliver the following results:

- 9 Small to Medium Sized Leases or Loans facilitated (over \$10,000 each);
- 3 large Leases or Loans facilitated (over \$50,000 each);
- 150 agribusinesses interviewed and screened for assistance, results provided to RAMP;
- 8 marketing or sales linkages developed;
- 50 agribusinesses assisted with pre- or post-finance consulting;
- Training provided to at least 100 entrepreneurs;
- Business Services provided to at least 2 RAMP-supported Nut Associations.

RAMP initially committed to funding the initial seven months of RAMP's remaining 13 months to offer business development services. RAMP will guide FI on the expectations of the services that should be provided to RAMP-supported clients. Originally contingent upon proper implementation in accordance with the Subcontract, the project was extended due to successful implementation during the first six-month sub-contract and additional funds provided to allow the project to continue until the end of RAMP.

Background

The RAMP prime contract called for aggressive programs to expand financial service delivery. In this context, RAMP issued a Request for Proposals (RFP) in March 2005 to solicit potential subcontractors to offer business development services to complement the efforts of RAMP and of the RAMP-supported financial institutions (AIB, AFC, and ACAP). A USAID/RAMP review team unanimously selected FI's proposal to provide BDS services.

The United Nations Development Program (UNDP) has implemented a similar project since November 2004 with mixed results. Although the individual consultants brought on board by UNDP had the relevant expertise, UNDP itself was slow, bureaucratic and had no value to add to this process. The start of the project itself was delayed by 3 months due to inefficiency on behalf of UNDP with respect to hiring, acquiring an office, and fulfilling administrative requirements.

The geographic coverage of the FI BDS services was delivered in areas necessary to fulfill RAMP program goals and directed with significant input by RAMP. These include the following target regions: Kandahar-Helmand, the Shomali Plains, the Kunduz-Balkh-Baghlan area, the Nangahar-Laghman-Paktia region, and Wardak-Logar-Ghazni. As part of FI technical approach, FI coordinated closely with RAMP-partner financial institutions

and with RAMP itself, to ensure that the companies meet RAMP goals in the context of agribusiness focus and geographical location.

FI assistance to AIB provided early quality clients for their new bank branch office in Mazar-e-Sharif and led to their future branch in Herat. FI also offered business, accounting, and financial credit training courses to employees of RAMP, AIB, AFC, and other implementers alongside of advanced staff from agribusiness SMEs from the FI office in Kabul.

With FI as an implementer, RAMP was able to guide the process to ensure that the BDS project will meet the needs of the clients while simultaneously contributing to the goals of RAMP. The business advisory services that FI provided to clients prepared them to apply for financing to grow their business. Once the client received financing, FI also supported them in taking a market-oriented approach to their agribusinesses and providing post-finance assistance.

The BDS project provided the linkage between the clients and financial services. The financial institutional partners of RAMP also benefited from the FI BDS project by FI consultants preparing the clients about the needs of the financial institutions in advance of their meetings. The technical assistance and support provided by this activity to the enterprise presented the financial institutions with a level of assurance of the particular business's viability.

Project Objectives and Results

FI provided BDS services to Afghan agribusinesses in order to complement the activities of the RAMP Rural Finance Team and RAMP implementers AIB, ACAP, AFC and other financial institutions like the Afghan First MicroFinance Bank (FMFB), and the U.S. government agency, Overseas Private Investment Corporation (OPIC).

A major need of Afghan businesses is access to SME credit. Many NGOs and donor projects offer micro-credit or grants; the contractor did not offer these services, but rather linked RAMP clients to larger-scale SME credit opportunities. FI helped RAMP agribusiness clients gain access to Afghan credit mechanisms through tailored technical assistance, assisting at every stage from the basics (business plan, credit application) to the more sophisticated art of selling oneself and one's business to creditors. FI also trained inexperienced Afghan staff to become experts in financing for agricultural enterprises, enabling them to match clients with appropriate financing opportunities -- be they public, private or donor sources. Once these sources are identified and evaluated, FI staff took RAMP clients through the application process from start to finish. By reaching out to external funding mechanisms, RAMP resources were used effectively, using FI consulting services to catalyze additional rural development opportunities from existing financial sources.

RAMP-funded BDS services provided by FI supported production, processing, and marketing of Afghanistan's main agricultural products. FI services by design increased

agribusiness revenues through introduction and improvement of processing facilities and equipment, improvements in storage and warehouse structures; and raising the level of inputs used by the agribusiness sector. Particular emphasis was placed on supporting well-managed and transparent Afghan agribusinesses; particularly those engaged in potential export activities.

These services were provided from the FI Kabul office and RAMP office in Herat along with frequent travel to outlying areas in accordance with RAMP program goals. Close coordination was maintained between the FI BDS team and the RAMP Agriculture and Rural Finance Teams. Additionally, the FI COP served as a personal liaison to three RAMP Rural Finance implementing partners (AIB, ACAP and AFC) in order to ensure that finance facilitation efforts meet the criteria of the RAMP financial institution partners.

Accounting and Post-Finance Technical Assistance

Part of providing BDS services to agribusinesses is not only ensuring their access to finance, but also ensuring that the supported agribusinesses are capable of absorbing the capital injection. In this context, post-finance accounting and financial management services are particularly important in order to increase efficiency, build capacity and to ensure repayment of the relevant debt finance. This was particularly attractive for equity participation by ACAP though they only began operations in April 2006 and were not in the position to fund any projects prior to close out.

Under the RAMP project, FI provided short-term technical assistance to businesses accessing finance from RAMP-supported financial institutions. These services included accounting training, finance training, and budgeting services administered to 150 agribusiness entrepreneurs of which 35% were women.

Sustainable Activities

The FI approach builds capacity of local employees rather than relying on expensive expatriates to provide the services indefinitely. Typically, excessive donor subsidies to startup BDS companies are one of the major causes of these entities failing to achieve sustainability, as they usually cannot reconcile a small revenue stream with excessive operating costs over the long term. The FI approach ensures that BDS growth is dictated, among other factors, by revenues from the sales of services and training, and not by donor grants covering costs. FI believes that the most credible providers of BDS services, over the long term, are not community development organizations, NGOs, producer associations and rural credit institutions, but rather private-sector companies selling their knowledge to the benefit of themselves and the clients they serve.

FI staff members received training by FI long and short-term consultants allowing them to plan for market shifts and respond to market demands. This and other factors significantly contributed to the development of a sustainable BDS provider in Afghanistan.

FI consultants offered management and operational support for the BDS center and for the sustainable development and localization of the BDS institution. Ultimately, the RAMP BDS project implemented by FI was transformed into a permanent local consulting company in June 2006 as a means to perpetuate the gains by this project, and provide an increased developmental return on the initial RAMP investment.

Project Accomplishments - Deliverables, Expected Results and Success Stories

The following table illustrates the expected and results achieved by FI during the thirteen-month contract period:

Tasks	Deliverable	Out put/ Impact Benchmark	Target number	Achieved Date	Achieved Date by %
1	Facilitate 9 small to medium sized lease (over \$10,000 each)	a) 9 Small to Medium sized Leases or loans (Over \$ 10,000 each) \$ 90,000 in small-to-medium by clients. b) 15 SME agribusinesses [1] will be provided with technical assistance in the preparation of leasing of agricultural equipment and working capital loans to facilitate the project; c) \$90,000 in small-to-medium-size debt finance will be accessed by clients.	9 15 \$ 90,000	11 18 \$ 703,800	122% 120% 782%
2	Facilitate 3 large leases or loans (Over \$50,000 each)	a) 3 large leases or loans (Over \$ 50,000 each) \$ 100,000 in large-scale debt finance will be accessed by clients b) 5 Large agribusinesses will be provided technical assistance in preparation of business plan and agricultural equipment; c) \$ 150,000 in large-scale debt finance will be accessed by the clients	4 5 \$ 150,000	4 7 \$1,870,000	133% 140% 1247%
3	150 agribusinesses interviewed and screened for assistance and submitted to RAMP	a) Screening and survey forms will be developed for 150 agribusinesses, results provided to RAMP b) of these, 30 agribusinesses will be provided with assistance in accessing debt, trade or equity finance.	150 30	150 49	100% 163%
4	8 marketing or sales linkages developed	a) of the agribusinesses clients interviewed in Task 3, at least 8 will secure trade, market or sales linkages	8	9	113%
5	25 agribusinesses assisted in pre - or post consulting	a) 1 Business Planning Seminar conducted for 25 SMEs in FI Kabul Office 1 Seminar Conducted in Hirat for 15 SMEs 1 seminar conducted in Mazar-e-Sharif for 15 SMEs	25 15 15	62 50 10	248% 333% 67%
6	Training Provided to at least 100 entrepreneurs	a) We will provide primary assistance to those associated to nut sector.	100	125	125%
7	Business Services provided to at least 2 supported Nut Associations	2 RAMP-supported Nut Associations will be provided with technical assistance in preparation of applications or other assistance primarily for procurement of agricultural equipment	2	2	100%

[1] Here defined as: SMEs are those Afghan businesses having revenues of less than \$50,000 / year, while larger agribusiness have re

In addition, through June 2006, FI secured additional capital in the amount of \$2,573,800 for the benefit of RAMP-supported agribusinesses with more than \$1 million in the pipeline – far exceeding the \$1,000,000 in cost share benefit originally required.

USAID-funded Program Helps a Reputable Afghan Company Resume its Leading Position in Local Market

It all began in the 1950's when the Bagram Fruit Company was established. Ever since then, it has worked for its reputation of a distinguished producer of high quality dry fruits sold all over the world. In the late 70s, after the Soviet occupation, the Aslamy family left Afghanistan and moved to the USA. In the midst of 2002, after the collapse of the Taliban regime, Mr. M. Eshaq Aslamy, the founder of the Bagram Fruit Company, returned to Afghanistan and recovered his assets which he had left behind. He resumed the production of dried fruits without allowing for any compromise in their quality. However, he noticed that there were opportunities to expand his business and he was determined to grasp them with the assistance of his son and manager, Humayoon Aslamy.

Mr. M. Eshaq Aslamy invested over \$200,000 in his business but to reach his vision he needed additional assistance. The owner realized that he had the advantage of the strategic location of his raisin packing factory in the heart of the Parwan Province, the Shomali Plains, which would enable the company to process locally owned grapes and to produce and bottle natural grape juice to meet part of the demand for these products in Afghanistan. In doing so, they will hire and train at least 15 skilled managers and workers and provide support to an estimated 200 families in the region during harvest and peak activity seasons. However, he was also aware that something was missing.

Being familiar with the results achieved by FLAG International, the USAID-sponsored Rural Agricultural Markets Program (RAMP) Business Development specialists, the Overseas Private Investment Corporation, (OPIC), made the connection. For several months FLAG advisors worked closely with Bagram Fruit, reviewed the company's systems, facilities, and potential, and developed a business plan comprising the company's vision for its future development and aiming at obtaining the capital necessary for the expansion of the activity.

As a result, the missing link was in place. Through the USAID-sponsored Rural Agricultural Markets Program (RAMP) and technical assistance provided by FLAG International, the Bagram Fruit Company obtained a loan of USD 700,000. The loan will be used for the purchase of machines and equipment from the United States for production of fruit juices, renovations, and working capital for their existing dry fruit production factory. FLAG also provided advice and assistance to Bagram Fruit allowing them to make a contribution and receive two large cold storage rooms for storing the fresh fruit before processing. RAMP IP, Grain Industry Alliance Intl. (GIAI) implemented this portion of the project successfully working together with FLAG International and the Aslamy's.

When completed, the juice production facility will have the capacity to produce over 3.6 million bottles per year per shift (over 850,000 liters) thus combating to an extent the low quality, higher-priced imported grape products made from grapes grown in Afghanistan. In addition, the Bagram Fruit Company will be the only known processor of fruit juice in Afghanistan.

The Bagram Fruit Company had an opportunity and grasped it. As a result, it will not only increase its profitability; it will also lay the foundations for reducing the Afghan dependency on food imports and for using the local potential and resources.

USAID / RAMP funded Assistance by FLAG International Results in Agribusiness Working Capital Loan.

The Milad Nor Company (MNC), located in Hirat, had a problem. Due to a lack of liquidity, the company was unable to purchase raw materials to clean, process, and export. The company lacked sufficient financial resources to buy unclean sesame and cumin seeds from the wholesale markets in Afghanistan. Seeing the opportunity to make a profitable business in addition to keeping more of the value chain inside Afghanistan, the Zabihi family behind Milad Nor sold their assets in order to purchase a complete seed-cleaning line. In addition to the line, they were able to obtain a 4000 sq.m. parcel of land in the new Hirat Industrial Zone with the understanding they would make all the necessary improvements to the land. These included a new building to house the seed cleaning line and over 2000 sq.m. of warehouse space for both raw materials and finished goods. The land, building and equipment acquisition expenses absorbed all of the capital Milad Nor had to purchase raw materials.

To attempt to resolve this problem, MNC looked for grants and then a working capital loan from the Afghan banking sector to enable them to purchase the necessary amounts of 60-80% clean seeds in order to clean, process, and export the 98% clean seeds to fill orders they have from international buyers. However, the grant institutions would not assist nor would Afghan banks that MNC approached have any interest in lending to an agribusiness without a professionally prepared business plan and sufficient collateral.



MNC asked for assistance from FLAG International (FI) consultants to prepare a business plan in order for them to obtain working capital financing from the Agribusiness Loan Program of the Afghanistan International Bank (AIB). The loan fund was created from an investment by the U.S. Agency for International Development and its Rebuilding Agricultural Markets Program (RAMP). AIB is providing a lending infrastructure and funds, while advisors from USAID/RAMP are providing technical support by assisting with the training of bank loan officers and evaluating loan proposals from agribusinesses.

The analysis of the business by FI and the bank unveiled a strong and competitive business. MNC currently has orders to provide up to 8250 metric tons of cleaned seeds to wholesalers in UAE and with FI assistance, more orders from the European Continent.



Working with the bank loan officer and RAMP-funded business consultants at FLAG International, MNC completed a loan application for \$500,000 working capital loan to purchase sufficient quantities of raw materials from around Afghanistan. FI International and national staff assisted AIB, the partner bank of the program, with the assessment of the business and in evaluating the financial projections. FI Consultants and RAMP assisted MNC and bank in structuring the repayments using a Letter of Credit to provide protection to MNC and the bank. Of note is the fact that this loan was made by the bank without any kind of guarantee aside from the assets of the business, based purely on their analysis of the profitability of the business, quality of contracts from buyers, as demonstrated through work

performed by the FI Consulting team.

The access to finance allows MNC to purchase unclean seeds and fill contracts this season and next. MNC will be able to employ 50% more people on a full-time basis for the entire year while keeping a valuable link in the seed processing value chain inside Afghanistan. By explaining and encouraging the use of new banking concepts like the use of Letters of Credit - resulted in less risk for AIB and saves MNC over \$13,000 dollars in lower interest payments. Additionally, it shows other banks in Afghanistan that agricultural and trade finance can work, increasing access to capital and lending to other hard-working, innovative Afghan entrepreneurs, like the principals of MNC.

The business plan will be updated and used again as a basis for an equipment leasing deal to add one additional machine that will remove the skins from the cleaned sesame seeds – resulting in an additional 30% increase in the selling price of the seeds along with reduced shipping costs. With the latest machine, six full-time jobs will be needed for hand sorting and women are ideal candidates for this more skilled labor.

From MNC: “FLAG International helped prepare our business plan and loan application to gain access to Afghan International Bank finance that was unattainable for us previously. Thanks!”

Through Internal Linkages, RAMP Programs Leverage Support to Herat's Dairy Industry

Munir Faqeri had a taste for the market. After the fall of the Taliban, he founded the Jam Hirat Ice Cream Company. Jam Hirat buys unpasteurized milk directly from local farmers in the Herat region and pasteurizes the milk, processing it into ice cream. Demand for the ice cream has been tremendous, with the company experiencing yearly triple-digit growth. With a vision of growing demand in the future, the company sought ways to leverage its capital. The company identified a need for increased milk storage equipment as well as a new milk pasteurization machine. The addition of this equipment would enable Jam Hirat to pasteurize and sell milk after the traditional ice cream sales season ends – moving Jam Hirat's sales from a seasonal to a cyclical basis. Currently, staff are laid off as the season ends, but with the new equipment, their employment will continue beyond the six-month ice cream production and sales season.

Munir recognized that the company's fast-paced growth required management skills and financial systems that they lacked. So when he heard about an accounting training course in Herat by FLAG International, a RAMP-funded business development program, he made sure to get a front row seat. Afterward, he approached FLAG for one-on-one consulting. FLAG advisors reviewed the company's systems and provided Jam Hirat with improved reporting systems. "FLAG trained the Jam Hirat Management Team in basic financial statements preparation and helped us prepare financial statements for the last three years," said Munir. Working together, FLAG and Jam Hirat also developed a business plan with an eye to access capital for expansion.

FLAG staff linked Jam Hirat with the U.S. Agency for International Development's Rebuilding Agricultural Markets Program (RAMP). Working with the Grain Industry Alliance (GIA), RAMP manages a "2-for-1" cold storage purchase program created to promote economic development in the agricultural sector. Under the program, the client receives two units for the price of one, with half the money due up front. RAMP staff analyzed the ice cream factory and approved its application into the program. As a result, Jam Hirat received free one milk cold storage unit with a capacity to hold 20 metric tons of milk. Jam Hirat can now process 8,000 kilos of milk per day with the use of this equipment. The ice cream company will next purchase via RAMP/GIA a 20 metric ton ice cream cold storage unit, increasing their current storage capacity of approximately six metric tons. The delivery and installation of the ice cream cold storage equipment is scheduled for January, 2006.

RAMP/GIA has now qualified Jam Hirat for two more 2-for-1 equipment packages. In total, the company will receive six cold storage units for the price of three. The financial statements prepared with assistance from FLAG International greatly facilitated the approval process.

Under RAMP, the FLAG International team continues to provide technical assistance and promote linkages with other RAMP contractors to Jam Hirat. Working with FLAG consultants, the ice cream company has begun a strategic planning process for further expansion. Additionally, FLAG linked Jam Hirat to the Afghan Finance Company, a leasing company that is also part of the RAMP family of agricultural development programs. Together, they are developing a business plan to apply for a lease for milk packaging and dairy production equipment.

Munir explained, “In the six months we’ve worked with FLAG we’ve seen our operations expand. If any Afghan company hopes to expand, we suggest they get assistance from RAMP.”

FLAG International Helps an Association Improve Farm Outputs from USAID funded RAMP Program

The Sultan Daud Improved Seed Production Association (SDIS) produces and distributes improved seeds such as wheat, barley, mash, chickpea, and rice in Afghanistan's Baghlan region. The association boasts eleven members – farmers who take advantage of the SDIS's modern technology and seed handling equipment. The Association is an example



of how a small company can make a big difference. The association began with an initial investment of only \$11,000. Today, it has a steady stream of clients ranging from the RAMP-funded International Fertilizer Development Company (IFDC) to local farmers, and from the UN's Food and Agriculture Association to the Aga Khan Foundation. But demand for the improved seeds exceeded the Association's supply. SDIS estimated that they only

fulfilled 10% of the demand. With its impressive client list, the association felt they were in a strong position to apply for a loan for working capital. However, commercial funding is still a new concept in war-torn Afghanistan, and few Afghans have experience applying for it.

Seed Cleaning Machine

This is where RAMP's business development Implementing Partner, FLAG International, stepped in. FLAG trained SDIS managers in the development of a business plan, financial statements, and projections. FLAG then facilitated the application for a working capital line of credit from the RAMP-funded Afghanistan International Bank (AIB). The line of credit was approved in October, 2005.



No longer constrained by a lack of working capital, SDIS members will be able to expand their markets, sales, and profits. More small Afghan farmers will have access to improved seeds, increasing their own output and productivity per jerib.

But FLAG did not stop there. The organization also assisted SDIS in the application of a lease for two tractors from the Afghan Finance Company (AFC), another RAMP-funded program. The leases were also approved, ensuring members of the SDIC access to the tractors and improved productivity.

RAMP Programs Assist Small Farmers Expand their Productivity – The Multiplier Effect of a

A tractor is a piece of equipment which most western farmers take for granted. However, in Afghanistan, few small farmers have stable access to one. They either must rely upon back-breaking manual (and animal) labor or rent tractors from nearby farmers. However, tractor rental is expensive and time consuming.

Jan Gull operates a farm in the Nad Ali District of Afghanistan's Helmand province. He owns 32 jeribs of land, upon which he grows various crops including wheat, barley, beans, and peas. He had no tractor of his own, and tractor rentals were expensive, reducing his profit. With the help of two RAMP programs: FLAG International and the Afghanistan Finance Company (AFC), Jan Gull now owns his own tractor, which he rents to neighboring farmers.

FLAG staff worked with Gull to develop a business plan and financial projections for the lease of a tractor. He used these materials to apply for a lease from the Afghan Finance Company (AFC), and he was approved.

Tractor leases make up 10% of AFC's lease portfolio, and FLAG has assisted several small farmers like Gull in developing business plans and projections for their successful applications. Though small farmers in Afghanistan have a

wealth of agricultural experience, their bookkeeping is typically rudimentary. This makes it difficult for them to access traditional sources of credit. With the business development assistance that FLAG International provides, innovative leasing programs tailored to this market such as AFC's, small farmers can securely access funds for equipment.



Typical lease clients own between 35 – 120 jeribs of land, have diversified income sources (e.g. crops and livestock, or crops and off-farm income), employ 2-5 laborers, and rent their leased equipment out to other farmers. It is the latter activity which expands the impact and outreach of a simple tractor lease. The benefits of the tractor are not limited to one farmer and his laborers – they are extended to other farmers in the community, creating a multiplier effect.

“Without FLAG International and Afghan Finance Company, it would take maybe 5 years longer for our community to be able to afford a tractor - Besyar zyad Tashakoor (Thank you very much).” – Jan Gull

Coordination and Key Players: Partners and Counterpart Institutions

The strategy in identifying creditworthy clients was to coordinate directly with RAMP and RAMP Implementing Partners, the business advisory services of FI, and other financial institutional partners of RAMP. Most of these institutions were instrumental in developing a pipeline of quality projects for the FI portfolio.

Additionally, FI worked closely with many other organizations during the past thirteen months. Some were also funded by USAID and other international donor programs along with several private Afghan registered companies. Examples of these coordinated interventions are listed below:

On The Frontier (OTF):

OTF and FI regularly exchanged information and coordinated efforts for many of each of our companies to attend training seminars and events hosted by the other. Additionally, we jointly assisted Haji Haider Raffat to attend a trade event in India and become one of Afghanistan's premier traders of almonds, pistachios, and other dried fruit and nuts.

Land O'Lakes (LOL):

FI Consultants along with LOL Consultants prepared a business plan draft for a large dairy products producer in Herat. This intervention allowed the Herat Ice Cream company to identify new equipment necessary to improve their production facility and new products to better compete with imported Iranian goods.

Grain Industry Alliance International (GIAI):

FI provided technical assistance to two companies which participated in a program for the acquisition of cold storage rooms. At least four cold rooms were obtained with the companies participating with more than \$80,000 of their own capital.

Overseas Private Investment Corporation (OPIC):

Based on a referral from OPIC, the Bagram Fruit Packaging Company worked directly with FI Consultants to complete a business plan that was submitted to OPIC and received \$700,000 of financing for their expansion.

USAID Afghanistan Economic Department:

At no additional cost, the FI office in Kabul assisted the Economic Development Department team in the development of an Entrepreneurship Questionnaire used by their teams in the Disarmament, Demobilization, and Reintegration of ex-combatants (DDR) in Afghanistan into the business society.

Herat Chamber of Commerce:

FI Staff conducted 3 business planning seminars for 50 Herat Chamber agribusiness SMEs and also participated in a seminar, "The Role of the Private Sector in the Economic Development in Afghanistan", sponsored by the Herat Chamber of Commerce.

First MicroFinance Bank (FMFB):

FI Consultants completed a one month SME Credit Training Program at the First Micro Finance Bank for the Afghan Credit Support Program funded by USAID and DEG. This training to inexperienced credit officers assisted the bank in beginning their new SME lending program

Food and Agricultural Organization of the United Nations (FAO):

FI consultants discussed in particular the relationship of FAO and Sultan Daud Improved Seeds Company (SDIS) regarding the business plan FI developed for SDIS and the debt financing that FI helped them obtain from AIB.

Catholic Relief Services (CRS) Herat:

CRS is working with local tomato producers from the Herat region in helping them start tomato paste production and organized tomato distribution. FI consultants assisted with the screening of the CRS business plan and provided business planning seminars for CRS clients who need assistance.

Adam Smith Institute (ASI):

FI translated and obtained the results for a survey provided to 13 SMEs. FI also assisted in the completion of a survey ASI used for a project submitted to the Ministry of Commerce. The presentation was to assist the Ministry of Commerce (MOC) in which areas are most important to SMEs and to focus future legislation brought forth by the MOC.

Challenges Encountered

This past thirteen months presented challenges mainly in the areas of security and logistics. The general security worsened over previous periods delaying several projects by weeks though ultimately they were completed. There were problems with the import of fuel for power generation causing many problems. Since national electric power only works for a few hours daily, we depend on generator power for our office. With fuel in short supply, normally reputable dealers began mixing water and other less desirable products damaging generators and causing power outages that disrupt work for days.

Policy

A key event in the political life of the country – the September 18 elections, took part during this past quarter. However, it did not affect the operations of the project. Despite a general countrywide slowdown, the established work mechanisms and smooth relationships with SMEs and counterparts allowed FI to continue pursuing our goals without interruptions.

No substantial changes were noticed and our long-term vision did not have to be adjusted despite the new players at the political level. FI was looking forward to the results of the democratic elections as we were convinced that the elections would speed up the development of the fledgling economy of the country and would lay the foundation for self-driven development of local businesses.

However, due to the lack of democratic institutions over a very long period of time, this Parliament is highly inexperienced and a number of challenges may be expected due to their lack of understanding of business processes and the way various tax and other incentives can be used to leverage business development. In addition, the current government is yet to realize the links between business development and the general level of development of the country as a whole.

For example, there were new legislative initiatives to alleviate the current burdens on businesses such as exceedingly high taxes on mortgages (i.e. businesses are required to pay 4% of the loan amount to the government to obtain the right to mortgage their property) and new income taxes, though after the first six months of our program. In addition to that, the administrative procedures for obtaining loans are still relatively clumsy and it normally takes at least two months and often longer to obtain formal approval of the loan from the banks.

Logistics

We were faced with a number of logistical problems, i.e. field visits are time consuming and communications are expensive. However, our work would not have been possible without such activities and our intention is to continually design our plan for more effective communications and visits to our counterparts. In time and with training, more SMEs will have regular access to computers, email and our training is designed to use it effectively.

Other

In addition, our work was at times impeded by the companies' inefficient approach to information disclosure resulting in non-productive communications and delays in our work.

As part of our work, we noticed that very few banks and other financial institutions are actively lending to agribusinesses. This is improving, but it limited the amount of funding we could help the SMEs attain in the relatively short project duration.

Lessons Learned

- It is essential to participate in both the conceptualization and the implementation phase of business development practices to demonstrate full support and to ensure follow-up
- Work closely with complementary implementers to identify weaknesses and impediments to achieving goals
- Combination between international expertise and local knowledge works best, especially in a challenging environment where foreigners may be treated with suspicion

- Comprehensive approach – work with businesses to help develop business plans, train them at the same time to make them sustainable after project closure, and work with banks to facilitate evaluation process and coordinate requirements with condition of loan beneficiaries
- Adjust international expertise to local conditions – approach must be suited to realities of host country
- Companies must have ownership of the strategies used for their business development – new approaches cannot be solely the views of the donors/assistance providers.

Challenges Ahead

- Introduce new technologies and efforts to guarantee services are available and utilized by all businessmen and women
- Create new culture for doing business – use of technologies, internal reporting and bookkeeping procedures – uniform and up to international standards
- Identify best practices and coordinate with other donors/assistance providers to avoid duplication of efforts
- Develop a commitment to training and skills building in local counterparts at all levels
- Work more intensely with relevant government institutions to ensure policy support for proposed approaches
- Promote strong donor cooperation – developing countries need more technical assistance than a single donor can provide. Therefore, donor activities should be well coordinated to maximize resources and achieve best results for the country

Conclusion

The major priority for FI over the next year will be to continue our outreach especially to women owned business and work in existing areas while expanding to territories we did not have the capacity to serve previously. We plan to make visits and offer training seminars in Mazar-e-Sharif and in Badakhshan, while continuing our successful program in Kabul and Herat provinces.

This technical assistance will be focused on increasing the effectiveness of local businesses, developing human capacity, and building solid knowledge of business planning and accounting procedures and mechanisms that will enable them to apply for financing. We base our expansion on the demands asked from Afghan banks that intend to open branch offices in those areas. Additional interest for our services will be to support equity investment funds and other donor organizations.

We also look forward to working with new donor-funded organizations helping them expand their program to areas where we have successful interventions. Afghan agribusiness associations continue to be a priority and we work together with existing organizations to support the needs and expansion of the associations and companies within.

FI intends to consolidate our legacy in the country through active training, continuous communication, and follow-on post-finance assistance while developing sound procedures for the national staff leading to sustainable development of local businesses.

Our efforts will also be focused on improving the level of communication between businesses, banks, and government institutions.

In addition, the necessary culture for working under non-NGO technical assistance programs will have to be established in local businesses and that aspect incorporated in our everyday work.

We will continue to work on the elaboration of communication channels with our local counterparts to ensure timely delivery of information necessary for provision of technical assistance and completion of project goals.